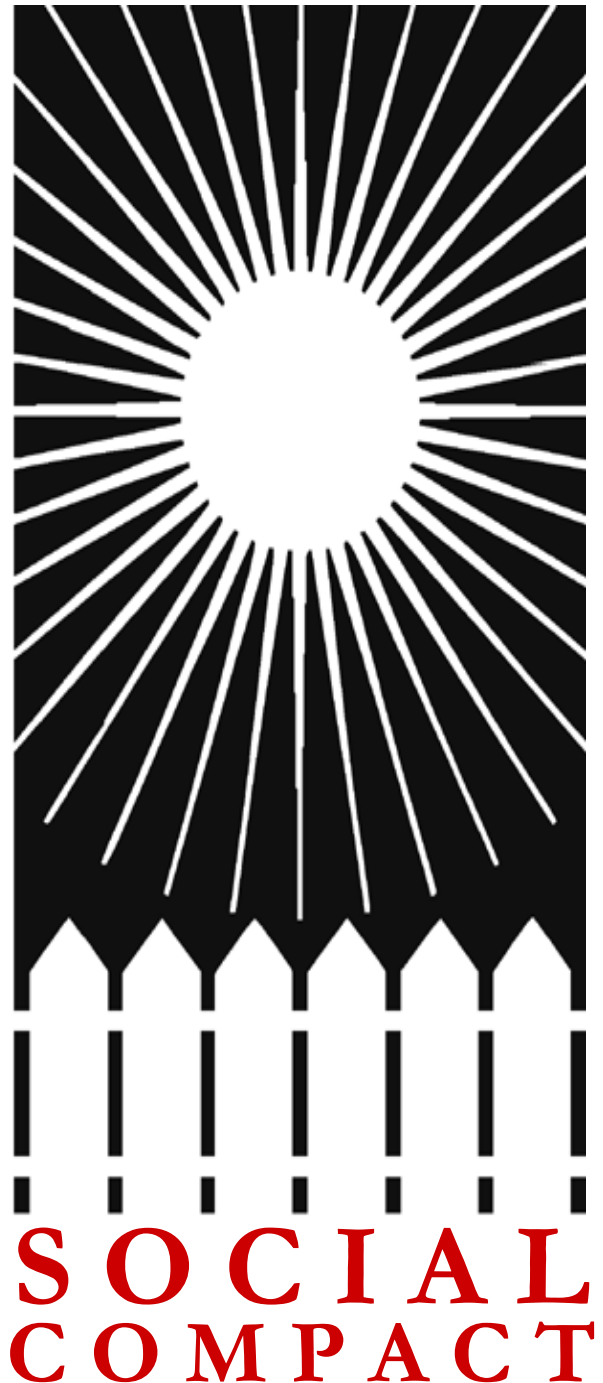


Houston Neighborhood Market Drill Down

Prepared for:
The City of Houston,
Bank of America,
The Chase Bank,
Enron,
State Farm,
Washington Mutual,
Wulfe & Co.



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HOUSTON NEIGHBORHOOD MARKET DRILL DOWN

TABLE OF CONTENTS

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Acknowledgements	i
Executive Summary	Executive Summary-I
Introduction	Executive Summary-I
Background to Social Compact	Executive Summary-2
Methodology	Executive Summary-2
▪ Unique Market Insights	
▪ Population/Growth	
▪ Buying Power	
▪ Home Values	
▪ Crime	
▪ Daytime Population	
▪ Sizing Markets	
Aggregate Houston Drill Down Neighborhood Overview	Executive Summary-4
▪ Markets much larger, dramatically increasing in size	
▪ Evidencing key indicators of market change	
▪ Increasingly much safer and more stable	
▪ Market Income – a function of household counts and a cash economy	
▪ The untapped market opportunities	
Overview Drill Down Slide	Overview Drill Down Slides-I
Group Drill Down Report	Group Drill Down-I
Super Neighborhood Group Analysis	Super Neighborhood Group Analysis
▪ Near Northside	Near Northside-I
▪ Greater Fifth Ward	Greater Fifth Ward-I
▪ Greater East Side	Greater East Side-I
▪ Gulfgate Area	Gulfgate Area-I
▪ Greater Third Ward	Greater Third Ward-I
Super Neighborhood Drill Down Report	Neighborhood Drill Down-I
Source Notes	Source Notes-I

Houston Neighborhood Market Drill Down

Executive Summary

INTRODUCTION

In May 2000, the City of Houston in partnership with a team of local industry leaders – Bank of America, Chase, Enron, State Farm, Washington Mutual and Wulfe & Co – contracted with the Social Compact to conduct the Houston Neighborhood Market Drill Down. The intent: to provide the City, the local business community and the relevant Houston neighborhoods with a unique set of dependable business-oriented data and market insights that cannot be accessed through traditional market sources.

The study's objective:

To help fuel the flow of private capital and support informed business decision-making processes relative to future investment strategies for Houston's inner city and undervalued neighborhoods.

Sixteen of the city's Super Neighborhoods encompassing approximately 58 square miles were the focus of the Drill Down. By Super Neighborhood group number and name, they are:

- (51) The Near Northside
- (52) Kashmere Area
- (55) The Fifth Ward
- (56) Denver Harbor/Port Houston
- (63) Second Ward
- (64) Eastwood/Lawndale
- (67) Greater Third Ward
- (68) Old Spanish Trail (OST)/South Union
- (69) Gulfgate/Pine Valley
- (70) Pecan Park
- (72) South Park
- (73) Golfcrest/Reveille
- (74) Park Place
- (82) Magnolia Park
- (83) MacGregor
- (88) Lawndale/Wayside

Background - The Social Compact

Launched in 1990, Social Compact is a coalition of business leaders who have joined forces to promote successful business investment in undervalued communities for the benefit of current residents. Its high-level goal is to ignite private business investment and initiatives that will fuel the long-term competitive strength of lower-income communities.

Social Compact has pioneered the Neighborhood Drill Down to address some of the key barriers to private investment in and around inner-city neighborhoods – namely undependable market information and negative stereotypes. The Neighborhood Market Drill Down is a unique market analysis model built on innovative sources of dependable, business-oriented data designed to reveal the fundamental business attributes and market characteristics of urban communities. The Drill Down profile challenges the negative stereotypes that have historically defined inner-city neighborhoods. Poverty and deficiency data are replaced with business indicators of market strength. Some of the best private market analysis models – designed for the suburban market – are adapted to respond to the unique characteristics of the inner city in order to capture density, hidden populations, cash economies and micro-market development patterns that exist below the radar of traditional market information sources.

METHODOLOGY

Unique to the Drill Down, census findings or commercial census upgrades¹ do not serve as the foundation information set. Rather, the Drill Down builds on very current, finely sieved, reality-based market information drawn from a spectrum of diverse commercial, proprietary and local government sources (e.g.: tax assessor, building permit, auto registration, commercial credit companies, realtors, utility, school, police, the INS and IRS). Rather than relying on any one information set, the Drill Down looks for a set of findings that surface from the combined body of data. These findings are then tested against supplemental data (i.e.: Drill Down household income figures for each of the market areas were tested against IRS reported income data for the market) as well as the intuitive knowledge of local market leaders. These findings serve as the foundation for an objective systematic analysis of the business attributes of the markets.

At the foundation of the Houston Neighborhood Market Drill Down is a real-estate inventory derived from three core sets of municipal data: tax assessor, building permit and auto registration data. Addresses were further validated using first source credit data. Bottom line, every household count is built on a current address derived from municipal data sources.

Supplemental information sources for understanding ethnicity and growth patterns included INS and school enrollment data as well as development activity in the market including property sales, building alterations and new construction. Buying power was assessed based on first source credit data reinforced by Drill Down Cash-economy indicators including bill payment patterns, percentage of un-banked households and immigrant populations.

Super Neighborhood Groups

Rather than making use of traditional market sizing methods such as drive times, rings or zip codes, the Drill Down identifies and sizes distinct micro-market segments based on natural and man-made boundaries; institutional presence that tends to influence the nature of the surrounding market; and development patterns. Accordingly, the Super Neighborhoods were aggregated into five Super Groups:

- Near Northside;
- Greater Fifth Ward: The Fifth Ward and Kashmere;
- The Greater East Side: Denver Harbor/Port Houston, Second Ward, Eastwood/Lawndale, Magnolia Park, and Lawndale/Wayside;
- Gulfgate Area: Gulfgate/Pine Valley, Pecan Park, Park Place, and Golfcrest/Reveille;
- Greater Third Ward: Greater Third Ward, MacGregor, OST/South Union, and South Park.

The geographic boundaries for each of these five groups are built on the boundaries used by the City to define the relevant Super Neighborhoods. Where necessary, boundaries were slightly adjusted to reflect census block group boundaries.

Looking Beyond Medians – Drill Down to the Super Neighborhoods

Median interpretations were then based on each of these 5 Super Neighborhood Groups and key variables were also developed for each of the 16 distinct Super Neighborhoods. Even within each of these Super Groups or Super Neighborhoods there are distinct micro-markets that become lost through median interpretations of relatively large geographic areas. Examples of such micro-markets of strength that disappear in large market median interpretations include Idylwood and Country Club Estates in the context of The Greater East Side Super Group; Lindale in the context of the Near Northside; or MacGregor, University Oaks, or even the Third Ward in the context of the Greater Third Ward Super Group area. Such micro-markets were documented through the Drill Down process based on analysis of home values and income. For those not familiar with the Houston Drill Down Market area, the key message is: these are diverse communities with distinct micro-markets that can be further surfaced using the Super Group and Super Neighborhood Drill Down profiles.

^[1] Census upgrades are traditionally used by private industry and generally very effective in suburban and relatively static markets, but not designed to keep pace with highly dynamic markets that are home to hidden populations, cash economies, or distinct micro-market developments. Census upgrades are modeled market projections derived from census findings that are annually revised based upon historic measures of macro-market performance.

AGGREGATE MARKET OVERVIEW- KEY OBSERVATIONS

Key observations regarding the 16 Super Neighborhoods in the aggregate:

The Drill Down Neighborhoods are Much Larger and Dramatically Increasing in Population

The Drill Down reveals markets far larger and with much greater change in population than indicated by Census 2000:

- **The residential population is far larger** 26.8% than indicated by the Census 2000. The 2000 Drill Down population figure is 353,882 versus 281,262 residential population.
- **The Drill Down Household count of 109,875 is far larger** than the Census 2000 figure of 86,352.
- **The daytime population is huge:** The Daytime population including both workforce and high school and higher education students - estimated at 224,000 reflects an even larger market.
- **The residential population has increased far more** than documented by Census 2000. Drill Down revealed a market 30.7% larger than Census 1990 figures whereas Census 2000 reflects a market only 3.9% larger.²

The Drill Down Neighborhoods are Evidencing Key Indicators of Change and Strength

The Drill Down reveals markets reflecting important indicators of market change and strengthening including:

- **Single-family home values based on recent sales in the markets are far greater** – 39.8% – than indicated by a Claritas census upgrade (median value of \$76,300 versus \$54,600).³
- Appreciation in single-family real estate values – based on recent sales – was 55.7% over the past ten years.

^[2] It is stressed that the Drill Down assumes that there was a substantial undercount in Census 1990 and thus the change in market size – Census 1990 to Drill Down 2000 figure – is not necessarily interpreted as growth.

^[3] Based on an analysis of 1,954 sales, of which 1008 were single family properties with documented sales prices for the period 2000 and first six months of 2001.

The Drill Down Neighborhoods are Increasingly Much Safer and More Stable

The Drill Down reveals key indicators of increasing stability

- **Crime is down:** All incidents of reported crime is down 9.5% over 1997. In 2000, on average, across all the Drill Down markets, the incidents of crime per 1000 persons was down to 54.66 as compared with 67.42 incidents per 1000 people for the City as a whole.
- Vacant building decreased significantly. The Drill Down documented a major decrease in vacant buildings (down 16.5% between 1990 census and current municipal data; down 9.2% using Census 1990 and 2000 figures)
- Owner Occupancy is far higher. Owner occupancy – when measured at a building level -- is up to 59.8% as compared with 37.7% at a unit level.⁴

Drill Down Reveals Significantly Different Income Assumptions from Standard Census Upgrades

Drill Down Aggregate Household Income is estimated at approximately \$3.391 billion. This is modestly stronger in size than a census upgrade estimate (\$170 million larger), but grounded in dramatically different assumptions. Key among them are the following:

- **Larger Household Counts:** The Drill Down Aggregate Household Income is built on the Drill Down Household count of 109,875 which far larger than the Census Upgrade figure of 87,242 (Claritas).
- **A Significant Cash Economy:** The Drill Down conservatively estimated the cash economy at \$443 million (equivalent to 13.1% of the Drill Down aggregate market income).
- **Lower Average Household Income Estimates:** When this cash economy is taken into consideration, The Drill Down Adjusted Average Household figure increases to \$30,860 (versus Census upgrade average household income figure of \$36,942.) In the absence of any consideration of the cash economy, the Drill Down Average Household Income figure is \$26,832.⁵
- **Substantial Income Per Acre:** Income Per Acre is difficult to calculate due to the absence of zoning and thus fluctuations in land use. At the time of the Drill Down calculation, on average, 42.4% of the land in the target areas was residential in nature. Households per acre would average 7.8 and income per acre would average \$238,534.

^[4] Census does not measure owner occupancy at a building level, thus points of comparison are not possible. Comparisons of owner occupancy at a unit level are misleading due to the fact that the Drill Down documented a far larger unit count (17.6% more) than the 2000 Census.

^[5] Due to the significant variance in Drill Down and Claritas findings, The Drill Down figures were compared with IRS reported income at a zip code level and found to closely mirror IRS findings.

The Market Opportunities

A Huge Business Market

The Drill Down Neighborhoods are home to approximately 8,300 documented businesses employing about 124,000 people. Challenging traditional stereo-types, these are relatively stable businesses reflected by the fact that 5,524 or 66.7% of the businesses have overcome the three-year survival hurdle. The aggregate revenue for all businesses is in excess of \$25.4 billion.

A Substantial Consumer Banking Opportunity

In spite of a strong banking presence in the market, there is a significant percentage – 51% – of households that show no evidence of a documented banking relationship. This ratio is fairly consistent across all of the Super Neighborhood Groups.

A Significant Retail Consumer Market Opportunity

The Drill Down reveals a residential population of approximately 354,000 and 110,000 households; reinforced by a day-time population of 224,000. Residential aggregate income (inclusive of the cash economy) is estimated in excess of \$3.391 billion, translating into \$431,000 in income per residential acre.

In Summary

The Houston Drill Down reveals a series of highly diverse communities, all of which are much larger (26.8%) and growing much faster (30.7% vs. 3.9%) than indicated by the 2000 Census.

The Drill Down communities are significantly more stable and much stronger than indicated by commercial census upgrades traditionally used by the private sector. Home values are 39.8% higher and relatedly real estate is appreciating at a higher rate – 55% increase over 1990 census estimates. Owner occupancy indicators are higher 59.8% at a building level versus 37.7% at a unit level. Vacancies have decreased at least 9% and crime is down to 54.66 incidents per 1000 as compared with a ratio of 67.4 for the City as a whole.

Total residential consumer income of \$3.391 billion is substantially strengthened by a significant cash economy (equivalent to 13% of total income). Income per acre – when measured based on residential land use, jumps from \$94,000 to \$232,000 per residential acre.

The day-time population of 224,000 -- half of which is fueled by 8,000 plus businesses generating \$25 billion plus in revenues -- adds further energy to the market.

Bottom line – the Houston Drill Down markets are robust, high growth and increasingly stable communities with a huge consumer and small business base. The Houston Drill Down markets offer significant under-leveraged market opportunities including real estate development (almost 10% of the parcels are vacant), retail business (124,000 businesses) and financial services expansion (with 51% of the households unbanked).